

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITORS' REPORT.....	1
JACKSON COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	4
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	6
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	12
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	15
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	17
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	19
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	21
NOTES TO FINANCIAL STATEMENTS	23
BUDGETARY COMPARISON SCHEDULES	35
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	41
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	42
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	45
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	47
COMMENTS AND RECOMMENDATIONS	50
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS	53

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Tommy Slone, Former Jackson County Judge/Executive

Honorable William O. Smith, Jackson County Judge/Executive

Members of the Jackson County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Jackson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Jackson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Jackson County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Tommy Slone, Former Jackson County Judge/Executive

Honorable William O. Smith, Current Jackson County Judge/Executive

Members of the Jackson County Fiscal Court

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2007, on our consideration of the Jackson County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson County Fiscal Court's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 The County Should Require Timesheets On All Non-elected Employees
- 2007-2 The County Should Properly Maintain Personnel Records
- 2007-3 The County Should Withhold Social Security And Medicare From All Part-time Employees
- 2007-4 The Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures

Respectfully submitted,

Morgan - Franklin, LLC

Morgan – Franklin,

September 18, 2007

JACKSON COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

William O. Smith	County Judge/Executive
Leon Bingham	Magistrate
Raymond Dale Vaughn	Magistrate
Doug Rose	Magistrate

Other Elected Officials:

George Hays	County Attorney
Ronnie Gabbard	Jailer
Donald Moore	County Clerk
Bobby Morris	Circuit Court Clerk
Tim Fee	Sheriff
Paul Rose	Property Valuation Administrator
Melvin Lakes	Coroner

Appointed Personnel:

Beth Sallee	County Treasurer
Beth Sallee	Personnel or Payroll Officer
Beth Sallee	Data Processing Clerk
Teresa Truett	Occupational Tax Administrator
Larry Truett	Road Supervisor

JACKSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2007

JACKSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,106,113	\$	\$ 1,106,113
Total Current Assets	<u>1,106,113</u>	<u></u>	<u>1,106,113</u>
Noncurrent Assets:			
Construction In Progress	216,140		216,140
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	245,373		245,373
Buildings	781,481		781,481
Vehicles and Equipment	927,264		927,264
Infrastructure Assets - Net of Depreciation	<u>1,805,033</u>	<u></u>	<u>1,805,033</u>
Total Noncurrent Assets	<u>3,975,291</u>	<u></u>	<u>3,975,291</u>
Total Assets	<u>5,081,404</u>	<u></u>	<u>5,081,404</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	<u>26,011</u>	<u></u>	<u>26,011</u>
Total Current Liabilities	<u>26,011</u>	<u></u>	<u>26,011</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,949,280		3,949,280
Unrestricted	<u>1,106,113</u>	<u></u>	<u>1,106,113</u>
Total Net Assets	<u>\$ 5,055,393</u>	<u>\$ 0</u>	<u>\$ 5,055,393</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,149,920	\$	\$ 296,369	\$
Protection to Persons and Property	1,055,535	1,600	296,825	
General Health and Sanitation	243,697	293,931	32,203	535,641
Social Services	5,650		117,278	
Recreation and Culture	610,329	5,564	6,000	
Roads	926,810		1,918,129	
Capital Projects	3,240			
Interest on Long-term Debt	3,031			
Total Governmental Activities	3,998,212	301,095	2,666,804	535,641
Business-type Activities:				
Jail Canteen	2,847	1,200		
Total Business-type Activities	2,847	1,200		
Total Primary Government	\$ 4,001,059	\$ 302,295	\$ 2,666,804	\$ 535,641

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Functions/Programs Reporting Entity	Net (Expenses) Revenues and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Totals
Primary Government:			
Governmental Activities:			
General Government	\$ (853,551)	\$	\$ (853,551)
Protection to Persons and Property	(757,110)		(757,110)
General Health and Sanitation	618,078		618,078
Social Services	111,628		111,628
Recreation and Culture	(598,765)		(598,765)
Roads	991,319		991,319
Capital Projects	(3,240)		(3,240)
Interest on Long-term Debt	(3,031)		(3,031)
Total Governmental Activities	(494,672)		(494,672)
Business-type Activities:			
Jail Canteen		(1,647)	(1,647)
Total Business-type Activities		(1,647)	(1,647)
Total Primary Government	\$ (494,672)	\$ (1,647)	\$ (496,319)
General Revenues:			
Taxes:			
Real Property Taxes	\$ 145,232	\$	\$ 145,232
Personal Property Taxes	31,000		31,000
Motor Vehicle Taxes	66,042		66,042
Insurance License Taxes	459,731		459,731
Occupational License Tax	677,798		677,798
Other Taxes	62,594		62,594
In Lieu Taxes	149,900		149,900
Excess Fees	9,011		9,011
Miscellaneous	59,919		59,919
Interest Income	15,426		15,426
Total General Revenues	1,676,653		1,676,653
Change in Net Assets	1,181,981	(1,647)	1,180,334
Net Assets - Beginning	3,873,412	1,647	3,875,059
Net Assets - Ending	\$ 5,055,393	\$ 0	\$ 5,055,393

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	LGEA Fund	Special Grant Fund
ASSETS					
Cash and Cash Equivalents	\$ 308,150	\$ 335,864	\$ 50,304	\$ 174,581	\$ 67,284
Total Assets	<u>\$ 308,150</u>	<u>\$ 335,864</u>	<u>\$ 50,304</u>	<u>\$ 174,581</u>	<u>\$ 67,284</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$ 100	\$ 128	\$	\$	\$
Unreserved:					
General Fund	308,050				
Special Revenue Funds		335,736	50,304	174,581	67,284
Debt Service Fund					
Total Fund Balances	<u>\$ 308,150</u>	<u>\$ 335,864</u>	<u>\$ 50,304</u>	<u>\$ 174,581</u>	<u>\$ 67,284</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,106,113
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Of \$5,821,628	
Net Of Accumulated Depreciation Of \$1,846,337 Are Not Financial Resources And, Therefore, Are Not Reported In The Funds	3,975,291
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	<u>(26,011)</u>
Net Assets Of Governmental Activities	<u>\$ 5,055,393</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

	Non- Major Funds	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 169,930	\$ 1,106,113
Total Assets	<u>\$ 169,930</u>	<u>\$ 1,106,113</u>
FUND BALANCES		
Reserved For:		
Encumbrances	\$	\$ 228
Unreserved:		
General Fund		308,050
Special Revenue Funds	169,201	797,106
Debt Service Fund	729	729
Total Fund Balances	<u>\$ 169,930</u>	<u>\$ 1,106,113</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
REVENUES				
Taxes	\$ 1,440,269	\$	\$	\$
In Lieu Tax Payments	65,131	84,770		
Excess Fees	9,011			
Intergovernmental	310,263	1,618,400	98,182	299,730
Charges for Services	22,183			
Miscellaneous	4,096	117,278		
Interest	2,839	7,071	409	3,544
Total Revenues	<u>1,853,792</u>	<u>1,827,519</u>	<u>98,591</u>	<u>303,274</u>
EXPENDITURES				
General Government	535,010	10,800		3,262
Protection to Persons and Property	341,493		493,689	33,908
General Health and Sanitation	125,221			32,130
Social Services				5,650
Recreation and Culture				37,195
Roads		1,413,083		182,700
Debt Service		12,353		26,622
Capital Projects				
Administration	309,709	188,882	49,066	7,476
Total Expenditures	<u>1,311,433</u>	<u>1,625,118</u>	<u>542,755</u>	<u>328,943</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	542,359	202,401	(444,164)	(25,669)
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	162,191		490,000	
Transfers To Other Funds	(554,072)	(104,522)		(19,839)
Total Transfers & Other Financing Sources (Uses)	<u>(391,881)</u>	<u>(104,522)</u>	<u>490,000</u>	<u>(19,839)</u>
Net Change in Fund Balances	150,478	97,879	45,836	(45,508)
Fund Balances - Beginning	157,672	237,985	4,468	220,089
Fund Balances - Ending	<u>\$ 308,150</u>	<u>\$ 335,864</u>	<u>\$ 50,304</u>	<u>\$ 174,581</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
- MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

	Special Grant Fund	Non- Major Funds	Total Governmental Funds
REVENUES			
Taxes	\$	\$ 2,127	\$ 1,442,396
In Lieu Tax Payments			149,901
Excess Fees			9,011
Intergovernmental	564,564	251,452	3,142,591
Charges for Services		277,312	299,495
Miscellaneous			121,374
Interest		1,563	15,426
Total Revenues	<u>564,564</u>	<u>532,454</u>	<u>5,180,194</u>
EXPENDITURES			
General Government			549,072
Protection to Persons and Property		185,789	1,054,879
General Health and Sanitation	550,224	300,634	1,008,209
Social Services			5,650
Recreation and Culture		15,331	52,526
Roads			1,595,783
Debt Service		14,488	53,463
Capital Projects	3,240		3,240
Administration		17,637	572,770
Total Expenditures	<u>553,464</u>	<u>533,879</u>	<u>4,895,592</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	11,100	(1,425)	284,602
TRANSFERS & OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds	54,794	9,279	716,264
Transfers To Other Funds		(37,831)	(716,264)
Total Transfers & Other Financing Sources (Uses)	<u>54,794</u>	<u>(28,552)</u>	<u>0</u>
Net Change in Fund Balances	65,894	(29,977)	284,602
Fund Balances - Beginning	1,390	199,907	821,511
Fund Balances - Ending	<u>\$ 67,284</u>	<u>\$ 169,930</u>	<u>\$ 1,106,113</u>

The accompanying notes are an integral part of the financial statements.

**JACKSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

JACKSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 284,602
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	1,196,718
Depreciation Expense	(349,772)

The Issuance of Long-term Debt Provides Current Financial Resources to Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have no Effect on Net Assets.

Financing Obligation Principal Payments	<u>50,433</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 1,181,981</u></u>
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JACKSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND –
MODIFIED CASH BASIS

June 30, 2007

JACKSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND –
MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ _____
Total Current Assets	_____
Net Assets	
Unrestricted	
Total Net Assets	\$ _____ 0

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 1,200
Total Operating Revenues	<u>1,200</u>
Operating Expenses	
Inmate Benefits	<u>2,847</u>
Total Operating Expenses	<u>2,847</u>
Operating Income (Loss)	<u>(1,647)</u>
Change In Net Assets	(1,647)
Total Net Assets - Beginning	1,647
Total Net Assets - Ending	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

JACKSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 1,200
Payments To Vendors	(2,847)
Net Cash Provided By Operating Activities	(1,647)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,647)
Cash and Cash Equivalents - July 1, 2006	1,647
Cash and Cash Equivalents - June 30, 2007	\$ 0

**Reconciliation of Operating Income to
Net Cash Provided (Used) by Operating
Activities**

Operating Income (Loss)	\$ (1,647)
Net Cash Provided By Operating Activities	\$ (1,647)

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances) if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Jackson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

The Jackson County Recreation and Parks Board

The Jackson County Recreation and Parks Board is established for the purpose of maintaining and overseeing the day-to-day operations of the county parks. The Jackson County Fiscal Court is financially accountable for the Board; therefore, management must include the board as part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

C. Additional Jackson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Jackson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Jackson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The purpose of this fund is to account for funds received and expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes

Special Grant Fund – The purpose of this fund is to account for grant funds received and expended for state and federal grant funded projects.

The primary government also has the following non-major funds: Forestry Fund, Transfer Fund, KADD Fund, Recreation and Parks Fund, Disaster and Emergency Services (DES) Fund, and State Grant Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Transfer Fund, State Grant Fund, Special Grant Fund, Forestry Fund, DES Fund, and the Recreation and Parks Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The KADD Fund is presented as a debt service fund. Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. (The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements of Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements and Interpretations).

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the KADD Fund and the Recreation and Parks Fund. The Governor's Office for Local Development does not require these funds to be budgeted.

J. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Jackson County McKee Industrial Development Authority meets the criteria noted above and is disclosed as an organization jointly governed by Jackson County and the City of McKee.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Property Tax Calendar

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied October 1, due at discount October 30, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale April 30 following the delinquency date.

Note 2. Deposits

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

B. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, \$347,407 of the County's bank balance of \$1,449,287 was exposed to custodial credit risk as follows:

Uninsured and unsecured	<u>\$ 347,407</u>
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JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 245,373	\$	\$	\$ 245,373
Construction in Progress		216,140		216,140
Total Capital Assets Not Being Depreciated	245,373	216,140		461,513
Capital Assets, Being Depreciated:				
Buildings	1,236,215			1,236,215
Vehicles and Equipment	1,683,031	158,608		1,841,639
Infrastructure	1,460,291	821,970		2,282,261
Total Capital Assets Being Depreciated	4,379,537	980,578		5,360,115
Less Accumulated Depreciation For:				
Buildings	(427,184)	(27,550)		(454,734)
Vehicles and Equipment	(820,379)	(93,996)		(914,375)
Infrastructure	(249,002)	(228,226)		(477,228)
Total Accumulated Depreciation	(1,496,565)	(349,772)		(1,846,337)
Total Capital Assets, Being Depreciated, Net	2,882,972	630,806		3,513,778
Governmental Activities Capital Assets, Net	\$ 3,128,345	\$ 846,946	\$	\$ 3,975,291

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 5,470
Protection to Persons and Property	45,873
General Health and Sanitation	1,853
Recreation and Culture	7,579
Roads, Including Depreciation of General Infrastructure Assets	<u>288,997</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 349,772</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt

Governmental Activities

A. 2003 Komatsu Wheel Loader

On February 20, 2003, the County entered into a lease agreement with Komatsu Financial for the purchase of a Komatsu wheel loader. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$1,207 and an interest rate of 4%. As of June 30, 2007, the principal balance outstanding was \$14,084. Debts service requirements for fiscal year ending June 30, 2008 is as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 14,084	\$ 284
Totals	<u>\$ 14,084</u>	<u>\$ 284</u>

B. 2003 GMC Dump Truck

On May 30, 2003, the County entered into a lease agreement with Volvo Commercial Finance for the purchase of a GMC dump truck. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$1,025 and an imputed interest rate of 7.443%. As of June 30, 2007, the principal balance outstanding was \$11,927. Debts service requirements for fiscal year ending June 30, 2008 is as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 11,927	\$ 375
Totals	<u>\$ 11,927</u>	<u>\$ 375</u>

C. 2003 Ambulance

On January 13, 2004, the County entered into a lease agreement with Farmer's Bank and Capital Trust Co. for the purchase of an ambulance. Terms of the lease agreement stipulate a four-year repayment schedule with semi-annual principal and interest payments of \$6,741 due in July and January and an interest rate of 5.02%. As of May 8, 2007, the principal due of \$25,505 was paid in full.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 76,444	\$ 0	\$ (50,433)	\$ 26,011	\$ 26,011
Financing Obligations Payable	<u>\$ 76,444</u>	<u>\$ 0</u>	<u>\$ (50,433)</u>	<u>\$ 26,011</u>	<u>\$ 26,011</u>

Note 6. Operating Lease

The fiscal court entered into a lease agreement for a vehicle to be used by DES. The total expense related to this lease was \$6,743 for the fiscal year ended June 30, 2007. The future minimum lease payments for this lease are as follows:

Fiscal Year Ended June 30	<u>Operating Lease</u> Lease Payment
2008	<u>\$ 5,118</u>
Totals	<u>\$ 5,118</u>

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost -sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2007, Jackson County was a member of the Kentucky Association of Counties' All Line Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Construction in Progress

The Jackson County Fiscal Court has \$216,140 of construction in progress associated with the Welcome Center building construction.

Note 10. Jail Commissary

During the fiscal year, the jail commissary received \$1,200 in canteen receipts and spent \$2,847 on inmate benefits. These expenditures depleted the commissary bank account. The jail commissary operations were discontinued and the bank account was closed.

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,338,300	\$ 1,338,300	\$ 1,440,269	\$ 101,969
In Lieu Tax Payments	93,000	93,000	65,131	(27,869)
Excess Fees	12,575	12,575	9,011	(3,564)
Intergovernmental Revenue	287,875	310,483	310,263	(220)
Charges for Services	20,000	20,000	22,183	2,183
Miscellaneous	2,000	2,000	4,096	2,096
Interest	1,200	1,200	2,839	1,639
Total Revenues	<u>1,754,950</u>	<u>1,777,558</u>	<u>1,853,792</u>	<u>76,234</u>
EXPENDITURES				
General Government	549,432	605,075	557,618	47,457
Protection to Persons and Property	316,818	299,393	318,885	(19,492)
General Health and Sanitation	200,000	147,025	125,221	21,804
Administration	286,050	323,415	309,709	13,706
Total Expenditures	<u>1,352,300</u>	<u>1,374,908</u>	<u>1,311,433</u>	<u>63,475</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	402,650	402,650	542,359	139,709
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	104,522	104,522	162,191	57,669
Transfers To Other Funds	(588,513)	(588,513)	(554,072)	34,441
Total Transfers & Other Financing Sources (Uses)	<u>(483,991)</u>	<u>(483,991)</u>	<u>(391,881)</u>	<u>92,110</u>
Net Changes in Fund Balance	(81,341)	(81,341)	150,478	231,819
Fund Balance - Beginning	<u>81,341</u>	<u>81,341</u>	<u>157,672</u>	<u>76,331</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 308,150</u>	<u>\$ 308,150</u>

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 58,000	\$ 70,163	\$ 84,770	\$ 14,607
Intergovernmental Revenue	841,224	1,402,225	1,618,400	216,175
Miscellaneous	1,000	112,000	117,278	5,278
Interest	4,000	4,000	7,071	3,071
Total Revenues	904,224	1,588,388	1,827,519	239,131
EXPENDITURES				
General Government	10,800	10,800	10,800	0
Roads	840,531	1,393,531	1,302,083	91,448
Debt Service	15,000	126,000	123,353	2,647
Administration	183,371	203,535	188,882	14,653
Total Expenditures	1,049,702	1,733,866	1,625,118	108,748
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(145,478)	(145,478)	202,401	347,879
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(104,522)	(104,522)	(104,522)	0
Total Transfers & Other Financing Sources (Uses)	(104,522)	(104,522)	(104,522)	0
Net Changes in Fund Balance	(250,000)	(250,000)	97,879	347,879
Fund Balance - Beginning	250,000	250,000	237,985	(12,015)
Fund Balance - Ending	\$ 0	\$ 0	\$ 335,864	\$ 335,864

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 89,740	\$ 89,740	\$ 98,182	\$ 8,442
Interest	500	500	409	(91)
Total Revenues	90,240	90,240	98,591	8,351
EXPENDITURES				
Protection to Persons and Property	621,553	618,159	493,689	124,470
Administration	62,200	65,594	49,066	16,528
Total Expenditures	683,753	683,753	542,755	140,998
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(593,513)	(593,513)	(444,164)	149,349
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	588,513	588,513	490,000	(98,513)
Total Transfers & Other Financing Sources (Uses)	588,513	588,513	490,000	(98,513)
Net Changes in Fund Balance	(5,000)	(5,000)	45,836	50,836
Fund Balance - Beginning	5,000	5,000	4,468	(532)
Fund Balance - Ending	\$ 0	\$ 0	\$ 50,304	\$ 50,304

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 170,000	\$ 207,000	\$ 299,730	\$ 92,730
Interest	150	150	3,544	3,394
Total Revenues	170,150	207,150	303,274	96,124
EXPENDITURES				
General Government	36,500	38,268	3,262	35,006
Protection to Persons and Property	57,428	66,310	60,530	5,780
General Health and Sanitation	36,000	37,000	32,130	4,870
Social Services	5,500	5,950	5,650	300
Recreation and Culture	34,222	38,422	37,195	1,227
Roads	60,000	182,700	182,700	0
Administration	15,500	13,500	7,476	6,024
Total Expenditures	245,150	382,150	328,943	53,207
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(75,000)	(175,000)	(25,669)	149,331
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(19,839)	(19,839)
Total Transfers & Other Financing Sources (Uses)			(19,839)	(19,839)
Net Changes in Fund Balance	(75,000)	(175,000)	(45,508)	129,492
Fund Balance - Beginning	75,000	175,000	220,089	45,089
Fund Balance - Ending	\$ 0	\$ 0	\$ 174,581	\$ 174,581

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	SPECIAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 3,260,086	\$ 3,329,808	\$ 564,564	\$ (2,765,244)
Total Revenues	3,260,086	3,329,808	564,564	(2,765,244)
EXPENDITURES				
General Health and Sanitation	3,260,086	3,260,086	550,224	\$ 2,709,862
Capital Projects		69,722	3,240	66,482
Total Expenditures	3,260,086	3,329,808	553,464	\$ 2,776,344
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)			11,100	11,100
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			54,794	54,794
Total Transfers & Other Financing Sources (Uses)			54,794	54,794
Net Change in Fund Balance			65,894	65,894
Fund Balance - Beginning	1,390	1,390	1,390	0
Fund Balance - Ending	\$ 1,390	\$ 1,390	\$ 67,284	\$ 65,894

JACKSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of Required Supplementary Information of the Statement of Revenues, Expenditures, and Changes in Fund Balances

	<u>Expenditures</u>
General Fund	
Budgetary Comparison Schedule	\$ 1,311,433
General Government	(22,608)
Protection to Persons and Property	<u>22,608</u>
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u><u>1,311,433</u></u>
Road Fund	
Budgetary Comparison Schedule	1,625,118
Roads	111,000
Debt Service	<u>(111,000)</u>
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u><u>1,625,118</u></u>
Local Government Economic Assistance Fund	
Budgetary Comparison Schedule	328,943
Protection to Persons and Property	(26,622)
Debt Service	<u>26,622</u>
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u><u>\$ 328,943</u></u>

**JACKSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

JACKSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	<u>State Grant Fund</u>	<u>Disaster and Emergency Services Fund</u>	<u>Forestry Fund</u>	<u>Transfer Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 56,170	\$ 70,458	\$ 943	\$ 23,402
Total Assets	<u>\$ 56,170</u>	<u>\$ 70,458</u>	<u>\$ 943</u>	<u>\$ 23,402</u>
 FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 56,170	\$ 70,458	\$ 943	\$ 23,402
Debt Service Fund				
Total Fund Balances	<u>\$ 56,170</u>	<u>\$ 70,458</u>	<u>\$ 943</u>	<u>\$ 23,402</u>

JACKSON COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2007
 (Continued)

	<u>KADD Fund</u>	<u>Recreation and Parks Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 729	\$ 18,228	\$ 169,930
Total Assets	<u>\$ 729</u>	<u>\$ 18,228</u>	<u>\$ 169,930</u>
 FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$	\$ 18,228	\$ 169,201
Debt Service Fund	<u>729</u>	<u></u>	<u>729</u>
Total Fund Balances	<u>\$ 729</u>	<u>\$ 18,228</u>	<u>\$ 169,930</u>

JACKSON COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

JACKSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	State Grant Fund	Disaster and Emergency Services Fund	Forestry Fund	Transfer Fund	KADD Fund	Recreation and Parks Fund	Total Non-Major Governmental Funds
REVENUES							
Taxes	\$	\$	\$ 2,127	\$	\$	\$	\$ 2,127
Intergovernmental		213,249		32,203		6,000	251,452
Charges For Services				271,748		5,564	277,312
Interest	1,070		39	454			1,563
Total Revenues	1,070	213,249	2,166	304,405		11,564	532,454
EXPENDITURES							
Protection to Persons and Property		183,382	2,407				185,789
General Health and Sanitation	29,550			271,084			300,634
Recreation and Culture						15,331	15,331
Debt Service				14,488			14,488
Administration				17,637			17,637
Total Expenditures	29,550	183,382	2,407	303,209		15,331	533,879
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources And Uses	(28,480)	29,867	(241)	1,196		(3,767)	(1,425)
TRANSFERS & OTHER FINANCING SOURCES (USES)							
Transfers From Other Funds				9,279			9,279
Transfers to Other Funds		(37,831)					(37,831)
Total Transfers & Other Financing Sources (Uses)		(37,831)		9,279			(28,552)
Net Change in Fund Balances	(28,480)	(7,964)	(241)	10,475		(3,767)	(29,977)
Fund Balances - Beginning	84,650	78,422	1,184	12,927	729	21,995	199,907
Fund Balances - Ending	\$ 56,170	\$ 70,458	\$ 943	\$ 23,402	\$ 729	\$ 18,228	\$ 169,930

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Tommy Slone, Former Jackson County Judge/Executive
The Honorable William Smith, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jackson County Fiscal Court, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 18, 2007. Jackson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting. These deficiencies are listed as items:

- 2007-2 The County Should Properly Maintain Personnel Records
- 2007-3 The County Should Withhold Social Security And Medicare From All Part-time Employees
- 2007-4 The Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item:

- 2007-1 The County Should Require Timesheets On All Non-elected Employees

The Jackson County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

September 18, 2007

**JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

**JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2007

NONCOMPLIANCES

2007- 1 The County Should Require Timesheets On All Non-elected Employees

KRS 337.320 states that every employer shall keep a record of the hours worked each day and each week by each employee.

During our testing of payroll, we noted that the park director did not have a time sheet. We recommend that time sheets be kept on all employees that are not elected officials.

William O. Smith, Jackson County Judge Executive's Response – Will check to determine requirements.

SIGNIFICANT DEFICIENCIES

2007-2 The County Should Properly Maintain Personnel Records

During our payroll testing we noted three instances where deductions for life insurance were not approved by the employees. Employees should be required to sign a document allowing any additional deductions from their paychecks.

We also noted one instance where an employee's application for Health Insurance wasn't signed.

We recommend that the County properly maintain personnel records in the future by assuring that employees sign all applications and withholdings are always approved by the employee.

William O. Smith, Jackson County Judge Executive's Response – In process of completing documentation.

2007-3 The County Should Withhold Social Security And Medicare From All Part-time Employees

During testing of payroll, we noted that Social Security and Medicare do not appear to be withheld from part-time employees. Part time employees are not permitted to participate in county retirement but should participate in Social Security and Medicare. We recommend that in the future Social Security and Medicare be withheld from part-time employees.

William O. Smith, Jackson County Judge Executive's Response – Problem has been corrected.

JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007- 4 The Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures

Section S of the General Employment Policies and Procedures states:

All County employees will be paid on the 15th and the 30th of each month.
During the course of our audit, we noted that payroll checks were given out and cleared the bank 1 to 4 days before the payroll date specified on the check.

We recommend the Treasurer disburse payroll checks in accordance with the County's General Employment Policies and Procedures.

William O. Smith, Jackson County Judge Executive's Response – Problem has been corrected.

PRIOR YEAR FINDINGS

- The County Judge Executive Appears To Have Been Overpaid By A Net Amount of \$214 Over The 2004 and 2005 Calendar Years. Corrected.
- The County Should Require Timesheets On All Non-Elected Employees. Not Corrected.
- The Jailer Should Prepare and Provide a Copy Of The Canteen Report To The Treasurer. Corrected.
- The County Should Properly Maintain Personnel Records. Not Corrected.
- The County Judge/Executive Should Present All Transfers To The Fiscal Court For Approval. Corrected.
- Jackson County Parks And Recreation Should Prepare Financial Statements And Monthly Reports For The Fiscal Court. Corrected.
- The Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures. Not Corrected.
- The Jail Canteen Account Should Be Closed. Corrected.
- The County Should Maintain Complete And Accurate Fixed Asset Schedules To Comply With GASB 34 Requirements. Corrected.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

JACKSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
JACKSON COUNTY FISCAL COURT

For The Year Ended June 30, 2007

The Jackson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William O. Smith
County Judge/Executive



Beth Sallee
County Treasurer